

VZCZCXYZ0003
PP RUEHWEB

DE RUEHPG #1761 3571258
ZNY SSSSS ZZH
P 231258Z DEC 05
FM AMEMBASSY PRAGUE
TO RUEHC/SECSTATE WASHDC PRIORITY 6769
INFO RUEHMO/AMEMBASSY MOSCOW PRIORITY 0667
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEAIIA/CIA WASHDC
RUCNFB/FBI WASHDC
RUEKJCS/SECDEF WASHDC
RHMFISS/HQ USCENTCOM MACDILL AFB FL

S E C R E T PRAGUE 001761

SIPDIS

SIPDIS

MOSCOW FOR SUSAN BAUER

E.O. 12958: DECL: 12/23/2015
TAGS: [KNNP](#) [PARM](#) [ETRD](#) [EZ](#)
SUBJECT: CZECH REPUBLIC: CONCERNS ABOUT RUSSIAN-OWNED
NUCLEAR EQUIPMENT MAKER AND IRAN

Classified By: CDA Cameron Munter for reasons 1.4 b+d

¶1. (C) SUMMARY: The Russian company OMZ, a subsidiary of the state-run firm GAZPROM, purchased the Czech firm, Skoda Nuclear Engineering (Skoda J.S), in April of 2004. OMZ has two wholly owned subsidiaries that manufacture equipment for nuclear plants. One, Izhorskie Zavody of Saint Petersburg, is already equipping Bushehr. The other subsidiary is Skoda J.S. of Plzen, Czech Republic. Evgeny Sergeev, Deputy CEO of OMZ is the General Director of Izhorskie Zavody and the Chairman of the Supervisory Board at Skoda J.S. Post has no evidence yet that the Czech firm is in any way pursuing business in Iran. But the connection through OMZ, together with the recent visit to Prague by an Iranian Parliamentary delegation which discussed nuclear cooperation with the Prime Minister and the Minister of Industry and Trade, concerns us.

A Czech law, passed in April, 2000, prevents Czech firms from supplying equipment or technical assistance to help in the completion of Bushehr. Post has met with Czech officials at the Ministries of Foreign Affairs and Trade to share our concerns and to encourage them to see that this law is enforced. Czech officials put faith in their regulatory system to prevent exports intended for Iran, but could not vouch for the reliability of Skoda Nuclear Engineering under its new management. END SUMMARY

¶2. (U) Mohammed Khatami, then Iranian President, visited OMZ's Saint Petersburg Firm, Izhorskie Zavody, in 2001. Later that year, OMZ delivered a 100MW pressurized water reactor to Bushehr as part of an agreement between the Russian and Iranian Governments. In 2004, OMZ sold off its shipbuilding and oil drilling interests and used the proceeds to acquire complete ownership of Skoda Nuclear Engineering and Skoda Specialty Steel, both formerly part of the Plzen-based Skoda Holdings Group. OMZ's stated goal was to become a giant in the field of energy generating equipment.

¶3. (SBU) Czech firms have been involved with the Bushehr plant in the past, most recently in late 1999 when the firm ZVVZ Milevsko attempted to sell HVAC equipment to the Iranians. Embassy Prague's efforts to block that sale resulted in passage of a law (99/2000) blocking the export, either directly or indirectly, of goods, services, documentation or information to the nuclear power plant at Bushehr. This law, which prevented the sale of the HVAC equipment, is still in effect.

¶4. (U) Emboffs met with trade licensing experts on 22 December to discuss the existing trade laws that would apply

to Skoda Nuclear. From the Ministry of Industry and Trade, the head of the Special Materials Export Licensing Division, Vlastimil Krepela, led a group that included Vera Vackova from his unit and Zdenek Urban (Director) and Ladislav Ondrej from Heavy Industries Department. They explained that the law prohibiting exporters from taking part in the building of Bushehr would still apply regardless of the ownership of the company or the routing of the materials. Thus, Skoda cannot legally ship materials from the Czech Republic to its Russian parent OMZ, and then have them delivered to Iran as a "work-around." The April 2000 law imposes a fine of 20 million Crowns (US\$850,000) or five times the value of the equipment supplied and these measures would apply to such diversions.

15. (S) Ondrej noted that he had contacted a board member at Skoda Nuclear Engineering to investigate the information earlier supplied by the Embassy that the firm, under its new management, could possibly be assisting in the rebuilding of Bushehr. He presented us with an email from Miroslav Fiala of Skoda Nuclear, which stated that the company "has not and will not have contact with any Iraqi (sic) subject" and that they will not take part in any building project having to do with Bushehr." Ondrej seemed to think that this was the end of the matter, but when pressed, admitted that he really doesn't know the company or have any reason to have faith in their leadership, which he claims has changed significantly since they were bought by OMZ last year.

16. (C) Post has also shared its concerns with the licensing officials at the MFA and with the Embassy's Office of Regional Affairs. Post will continue to weigh on this topic with Czech officials at all levels.
MUNTER